

State of Maryland GASB Valuation

November 3, 2005



AON

Agenda

- ✓ July 1, 2005 GASB 45 Valuation Results
- ✓ Data / Assumptions

GASB Plans

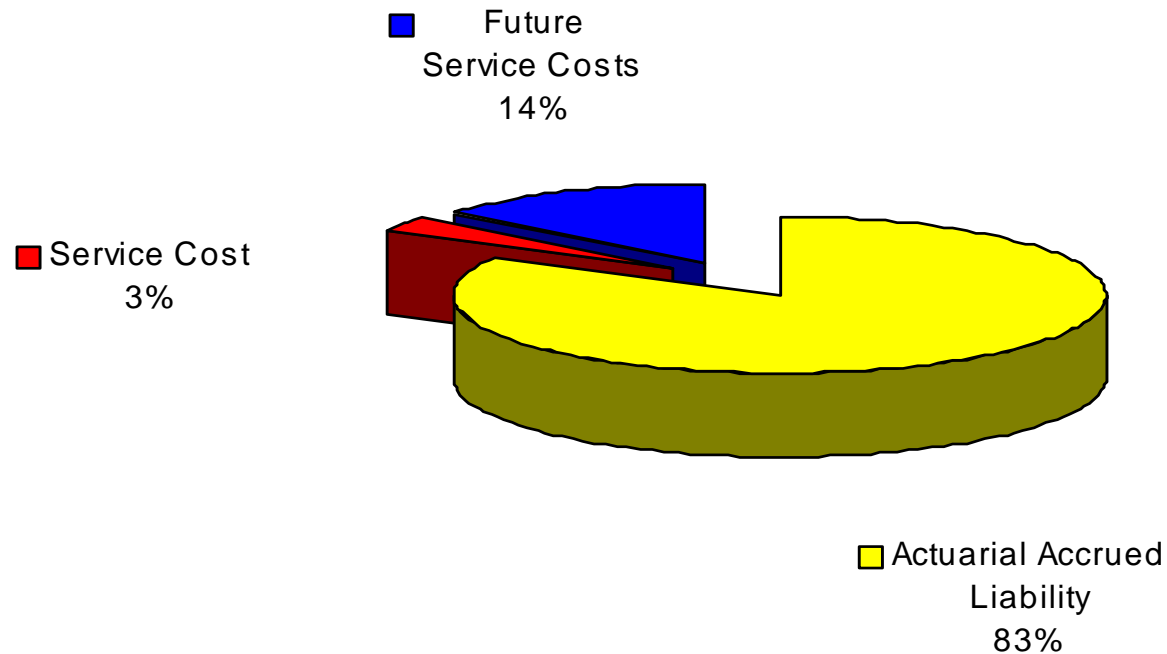
- State of Maryland Retiree Healthcare and Other Postemployment Benefits
 - Healthcare Plans required to be valued under GASB 45 since subsidized by the State of Maryland
 - Medical
 - Prescription Drug
 - Dental
 - Vision
 - Life Insurance & Long Term Care paid in full by retirees so no GASB 45 liability for the State of Maryland

July 1, 2005 GASB Results

	Initial Results (\$ billions)	Medicare Rx Savings (\$ billions)	Final (\$ billions)
Present Value of all Projected Benefits	27.406	2.980	24.426
Present Value of Benefits Earned to Date (Actuarial Accrued Liability)	22.903	2.528	20.375
2006 FY Annual Required Contribution (ARC) * +			1.959
2006 FY Annual OPEB Cost (AOC) +			1.959
2006 Expected Benefit Premiums +			0.311
<p>* The ARC reflects a 30-year, level amortization of the Unfunded Actuarial Accrued Liability. + Reflects reduction in cost due to Medicare Part D subsidy, starting January 1, 2006 .</p>			

July 1, 2005 GASB 45 Results

- **Present Value of all Projected Benefits -**



July 1, 2005 GASB Results

Annual Required Contribution (ARC):

Fiscal Year Ending June 30, 2006 (\$ billions)	
Service Cost	\$0.634
Unfunded Actuarial Accrued Liability Amortization	\$1.325
Annual Required Contribution (ARC)	\$1.959

July 1, 2005 GASB Results

Annual OPEB Cost (AOC):

Fiscal Year Ending June 30, 2006 (\$ billions)	
Annual Required Contribution (ARC)	\$1.959
Adjustment to Annual Required Contribution	\$0.000
Total Annual OPEB Cost (AOC) *	\$1.959

** Equal to the ARC if there is no OPEB obligation on the State's financials at transition.*

July 1, 2005 GASB Results

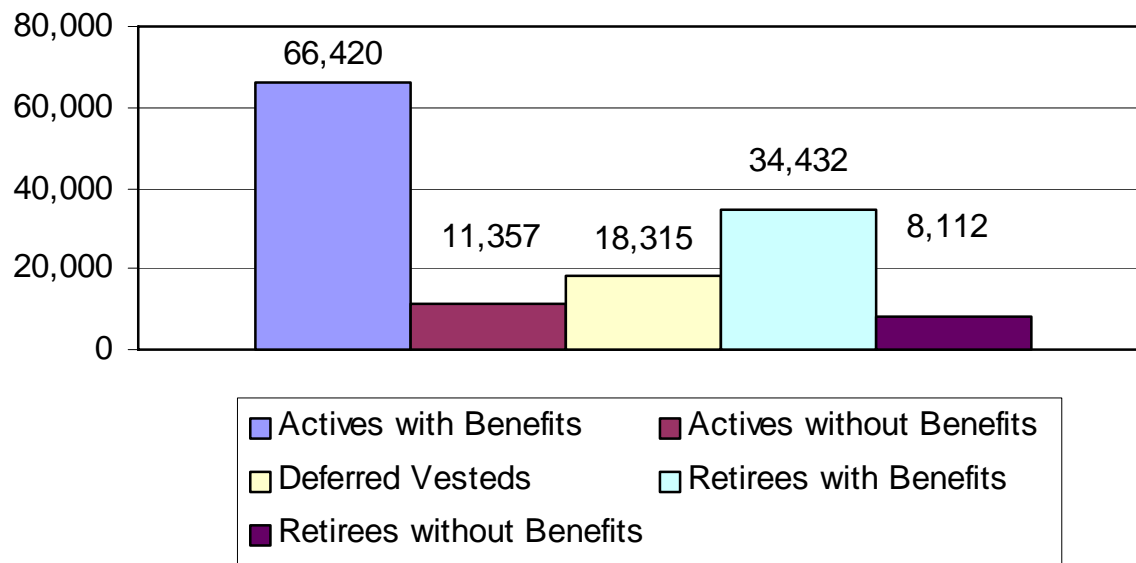
Projected June 30, 2006 Net OPEB Obligation (NOO):

Fiscal Year Ending June 30, 2006 (\$ billions)	
June 30, 2005 Net OPEB Obligation (NOO)	\$0.000
Annual OPEB Cost (AOC)	\$1.959
Expected Premium Payments	\$0.311
Expected June 30, 2006 Net OPEB Obligation (NOO)	\$1.648

Assumptions - Demographic

- Data as of July 1, 2005
 - No assumption for future new hires
 - Demographic assumptions same as pension plans
 - Actual dependent data used for retirees only
 - Breakdown of participants (no dependents):

July 1, 2005 Participant Counts (138,636 total)



Assumptions - Demographic

- 100% of retirees with current healthcare coverage would continue that coverage into the future
- 75% of retirees / deferred vesteds without current coverage would begin coverage at age 62, or current age if later
- 100% of all State Retirement System actives with current healthcare coverage would continue with the same coverage upon retirement
- 75% of all Optional Retirement Program actives and State Retirement System actives without current healthcare coverage would retire and elect retiree healthcare at that time
- 125 additional Optional Retirement Program actives assumed to account for St. Mary's College

Assumptions - Economic

- Discount Rate
 - Discount rate based on returns on assets used to pay benefits
 - Unfunded plans generate greater liabilities than identical funded plans
 - State Plan is not prefunded - base on the portfolio of the State's "general assets" used to pay healthcare benefits:

Asset Class	Target Allocation
Repurchase Agreements (Repos)	75%
1 - 3 Year Treasuries or Agencies	25%

Provided by Don Walton (Investment Manager for the Maryland State Treasury Department)

Assumptions - Economic

- Portfolio suggests a 3%-4% discount rate
 - Actual return 7/1/04 through 6/30/05 - 2.26%
- Recommend a rate as required under FAS 106 used to value postretirement healthcare benefits for private employers.
 - FAS 106 discount rates as of July 1, 2005 were 5.0% - 5.25%.

Aon recommends the lower end of this range, 5.0%, to be conservative.

Assumptions - Economic

Discount Rate – Sensitivity :

Discount Rate	5.0% (\$ billions)	5.5% (\$ billions)	4.5% (\$ billions)
Present Value of Projected Benefits	24.426	22.129	27.073
Actuarial Accrued Liability	20.375	18.651	22.337
Annual Required Contribution (ARC)	1.959	1.840	2.095

Assumptions - Economic

Assuming the Plan is funded:

- Investment portfolio similar to pension plans
- Pension valuation interest rate – 7.75%

Discount Rate	5.0% (\$ billions)	7.75% (\$ billions)
Present Value of Projected Benefits	24.426	14.855
Actuarial Accrued Liability	20.375	13.022
Annual Required Contribution (ARC)	1.959	1.455

Assumptions - Economic

- Medical Trend and Morbidity
 - Medical costs increase as an employee ages
 - After 65, cost offset by Medicare

Aon developed the trend assumption utilizing the short term rates expected on the State plan along with information in published papers from other industry experts (actuaries, health economists, etc.) suggesting a 5% long term trend rate for all healthcare benefits except dental (4.4% long term rate). Morbidity rates were selected based on published studies in actuarial journals.

Assumptions - Economic

Recommended trend rates:

Annual Rate of Increase					
<u>To Fiscal Year</u>	<u>PPO</u>	<u>POS</u>	<u>HMO</u>	<u>Rx</u>	<u>Dental</u>
2007	14.0%	13.5%	15.0%	15.0%	6.0%
2008	14.0%	12.5%	15.0%	15.0%	6.0%
2009	13.0%	11.5%	14.0%	14.0%	4.4%
2010	12.0%	10.5%	13.0%	13.0%	4.4%
2011	11.0%	9.5%	12.0%	12.0%	4.4%
2012	10.0%	8.5%	11.0%	11.0%	4.4%
2013	9.0%	7.5%	10.0%	10.0%	4.4%
2014	8.0%	6.5%	9.0%	9.0%	4.4%
2015	7.0%	5.5%	8.0%	8.0%	4.4%
2016	6.0%	5.0%	7.0%	7.0%	4.4%
2017	5.0%	5.0%	6.0%	6.0%	4.4%
2018	5.0%	5.0%	5.0%	5.0%	4.4%

Assumptions - Economic

Historical Trend Rates for specific healthcare coverage:

- Medical, Prescription Drug, Dental

Period	PPO	POS	HMO	MH/SA	Rx	Dental	Combined Average
CY 2001	13.9%	28.3%	(3.0%)	75.8%	20.7%	14.5%	18.0%
CY 2002	11.3%	27.7%	6.4%	2.5%	18.3%	12.6%	16.2%
CY 2003	8.8%	17.4%	6.6%	6.9%	16.4%	13.6%	13.5%
CY 2004	21.7%	4.0%	6.0%	26.3%	18.5%	12.9%	17.0%
Short CY 2005*	10.0%	10.9%	20.2%	5.0%	9.7%	12.9%	10.3%
FY 2006	11.8%	10.2%	6.4%	7.0%	(3.2%)**	4.0%	4.0%

* Annualized increase based on comparison of estimated CY 2005 costs to actual CY 2004 costs. CY 2005 costs for PPO, POS & HMO reflect plan changes effective January 1, 2005, including increased copays for physician office visits, emergency room visits and services, and therapy services.

** Reflects decrease in Rx costs due to increase in copays with implementation of an out-of-pocket family maximum, effective July 1, 2005.